

Legislative Fiscal Bureau

Fiscal Note

HF 2079 - New Economy Employment Initiative (LSB 5319 HV)

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Fiscal Note Version - New

Description

House File 2079 provides for a 50.0% (25.0% in tax year 2002) deduction from taxable income of the capital gain from the sale or exchange of stock of a corporation when the stock was acquired on account of employment with the corporation. A taxpayer is limited to two deductions for the stock of two corporations during the taxpayers lifetime. The total State cost for all such deductions is limited to \$3.0 million per year. If the claims exceed \$3.0 million, the tax benefits are prorated. The Bill takes effect upon enactment and applies to 2002 and subsequent tax years. The Department of Revenue and Finance is directed to determine by February 1 the total value of all refund claims from returns filed in the previous calendar year. Therefore, refunds for tax year 2002 will be paid after February 1 of calendar year 2004 (FY 2004).

Background

The income deduction in House File 2079 would be available for stock acquired by employees and owners of companies when the stock was acquired through a qualified employee stock option plan and also for stock acquired by company owners when the corporation was created (founder's shares).

The capital gain on stock acquired through an employee stock option plan would be equal to the difference between the price of the stock when sold and the price of the stock when the option was granted. For example, if an employee is granted 1,000 stock option shares when the share value of the company is \$15 and then exercises the option when the value is \$50 per share, the person would have a capital gain equal to \$35,000 (\$50 received minus \$15 paid times 1,000 shares). The Bill would reduce the taxpayer's Iowa income tax by approximately \$1,200 to \$1,600, depending on the employee's marginal tax rate.

The capital gain on stock received as founder's shares would, in most instances, be equal to the price received when the stock is sold or exchanged. This is because stock issued at a company's founding has no market-determined value. If 1,000 shares of stock are sold at \$50 per share, the capital gain would be \$50,000 (\$50 received times 1,000 shares). The Bill would reduce the taxpayer's Iowa income tax by \$2,250 at the maximum 8.98% marginal tax rate.

The above numbers are examples for illustrative purposes only. The benefit to individual taxpayer's would be determined by the number of shares received, the price paid per share for the option, and the price received when the option share is sold

Fiscal Impact

House File 2079 has no fiscal impact in FY 2003 due to refunds being paid before February 1, 2004. As a result of the Bill becoming effective more than one-third of the way through tax year 2002 and the benefit for tax year 2002 is only one-half the benefit in future fiscal years, the value of tax refunds paid in FY 2004 will be \$1.0 million of the \$3.0 million available. The fiscal impact in FY 2005 and beyond is estimated to be \$3.0 million per year.

Sources

Legislative Fiscal Bureau analysis
Department of Revenue and Finance analysis

_____/s/ Dennis C Prouty_____

January 30, 2002

The fiscal note and correction impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Legislative Fiscal Bureau to members of the Legislature upon request.
